



# PUBLIC MEETING

## **Utah Committee of Consumer Services**

Utah Department of Commerce  
June 12, 2008



# Welcome & Business

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# Public Comment

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# Questar Gas Co. Rate Case Rate Design

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Eric Orton



## QGC Rate Design

### Update: Return on Equity/Rate of Return

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- Hearings were held with all three expert witnesses, as well as some policy witnesses.
  - CCS Recommendation 9%
  - DPU Recommendation 9.25%
  - QGC Recommendation 11.25%
- Commission decision will be incorporated in revenue requirement order.



## QGC Rate Design

### Update: Revenue Requirement

- Committee's filed position: \$ 0.1 M
- Questar provided ongoing discovery updates
  - Confirmed feeder line program
  - Provided additional information regarding capital investments (approx. \$ 0.2M)
  - Provided explanation regarding integrity management accounting issue (\$ 3.5 M)
  - Provided additional background explaining what appeared to be promotional costs (\$ 0.6 M)
- Committee's new position: approx. \$ 4.4 M



## QGC Rate Design

# Revenue Requirement Update, p. 2

- Less than \$4M separated all parties after prefiled testimony and updated discovery
- In settlement discussions we:
  - Altered some of our adjustments based on more complete information provided by the company
  - Negotiated some dollar issues by compromise
  - Delayed some issues to the future
- Revenue Requirement Agreement: \$5.9 M  
(based on our recommended 9.0% ROE, will be adjusted to reflect Commission ordered ROE)



QGC Rate Design

## Primary COS Issues for Committee Investigation

- New Split of Residential and Commercial GS rate schedules
- NGV (natural gas vehicle) potential subsidy
- Bypass threat
- Accuracy of survey used in Cost of Service study
- Declining block rate
- Line extension
- Winter/Summer Differential



# Rocky Mountain Power Rate Case

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Cheryl Murray

Dan Gimble



# Rocky Mountain Power Rate Case Revenue Requirement

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Cheryl Murray



## RMP Rate Case: Revenue Requirement

# Rocky Mountain Power Rate Case

- Case as originally filed requested an increase in revenue requirement of \$161.2M
- RMP supplemented its filing based on the PSC ordered 2008 calendar year.
- Supplemental filing requested a revenue requirement increase of \$99.8M which incorporated:
  - Change in TY (\$40.4)
  - Change in depreciation rates (\$13.0)
  - Deferred accounting orders (\$8.0)

## RMP Rate Case: Revenue Requirement

### Return on Equity

- RMP requested 10.75% ROE
- DPU recommended 10.1% ROE (\$21.6M)
- CCS recommended 9.85% ROE (\$31.0M)
- Ball recommended (\$27.6) reduction to revenue requirement
- Cost of Long Term Debt Adjustment
  - RMP @ 6.30%
  - DPU @ 6.28% (\$0.4)
  - CCS @ 6.27% (\$0.6)



## RMP Rate Case: Revenue Requirement

### ROE Hearing

- The hearing on ROE was held on May 20
- PSC will include its decision on ROE in its order on revenue requirement

## RMP Rate Case: Revenue Requirement

### Party Positions on Rev Requirement

- Positions of parties other than RMP in Direct Testimony
  - DPU recommended a \$46M increase
  - CCS recommended a \$15.1M increase
  - Other intervenors recommended selected adjustments
- Company accepted some adjustments in its rebuttal testimony resulting in a new Company revenue requirement request of \$84.5M



RMP Rate Case: Revenue Requirement

## RMP Rate Case Hearing

- Parties waived cross examination of a number of witnesses. Hearing dates were reduced to June 2 – 5, eliminating 3 days.
- Public Witness Day was June 5. No members of the public appeared to testify.

## RMP Rate Case: Revenue Requirement

## Recommended Revenue Requirement

- Recommended Revenue Requirement Positions following the hearings:
  - RMP \$74.5 (\$9.7M error in filing)
  - DPU \$42.2
  - CCS \$ 6.4
- Other adjustments:
  - UAE (\$4.2)
  - UIEC (\$0.6)
  - Ball (\$31.1)



## RMP Rate Case: Revenue Requirement

### Next Steps

- New rates to be effective August 8, 2008
- PSC will determine how rates are to be spread among the classes in the period prior to the determination of cost of service and rate design.



# Rocky Mountain Power Rate Case Rate Spread and Rate Design

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Dan Gimble



## RMP Cost-of-Service: Rate Spread and Rate Design

### Background

- RMP's modified rate increase request—\$74.5M or 5.6% average rate increase
- **Rate Spread**: Allocation of revenue requirement increase ordered by the PSC among customer classes (residential, large commercial, industrial, etc.)
- **Rate Design**: Once rate spread is determined, revenue associated w/individual classes needs to be collected through the various rate components (demand, energy, customer charges) on customers' bills.



RMP Cost-of-Service: Rate Spread and Rate Design

## Ratemaking Principles

- **Cost Causation**: Rates for individual classes should reflect cost-of-service to send appropriate price signals to customers regarding their use of electricity.
- **Fairness**: Rate increases to classes, or segments within a class, should be fair such that subsidies are either minimized or eliminated.
- **Gradualism**: Rate analysts strive to moderate substantial, one-time rate impacts on a single customer class, or a segment of customers within a class.



RMP Cost-of-Service: Rate Spread and Rate Design

## Ratemaking Principles (continued)

- **Conservation:** Energy conservation is an increasingly important rate design goal to encourage customers to use energy wisely.
- **Revenue Collection:** The rate spread and rate design should (a) provide the utility with an opportunity to collect the overall revenue requirement authorized by the PSC and (b) avoid over- or under-collection of revenues from individual classes.



## RMP Cost-of-Service: Rate Spread and Rate Design

# RMP's Rate Spread Proposal

- RMP proposes an equal % increase of 5.8% for all major classes, except lg. commercial and irrigators.
    - Schs. 1, 23, 8, 9: 5.8% rate increase
    - Sch. 6: 4.6% rate increase
    - Sch. 10: 11.2% rate increase
- \*RMP's spread proposal is based on a comparison of individual classes' returns to a "four percentage points band" above and below the jurisdictional avg. return.

## RMP Cost-of-Service: Rate Spread and Rate Design

## Cost Of Service Study Issues

- CCS consultants have identified issues w/RMP's COS study that need to be addressed before relying on it for cost allocation purposes.
  - An excessive amount of generation plant and purchased power costs are classified as demand, rather than energy, which shifts costs from large to small customers
  - It appears that too much revenue from firm off-system sales is allocated to the larger classes.
  - Diversity of load on the distribution system appears understated, which results in excessive distribution costs borne by smaller classes.



## RMP Cost-of-Service: Rate Spread and Rate Design

# CCS Staff Rate Spread Proposals

- CCS staff is considering two types of rate spread proposals
  - **Proposal A:** Support an equal percentage increase for all major classes at the average level, until the cost of service study is updated and corrected.
  - **Proposal B:** Propose specific percentage increases for each major class, based somewhat upon the cost of service study, but also incorporating other ratemaking principles.



## RMP Cost-of-Service: Rate Spread and Rate Design

### RMP's Residential Rate Design Proposal

- Increase monthly customer charge from \$2 to \$4.
- Implement new customer load charge (CLC) of \$6/mo. for 12 continuous months for customers whose usage exceeds 1,000 kWh in at least two summer months.
  - The proposal also envisions assessing this charge as soon as rates are effective, based on usage this summer (2008).
- Change the current summer blocking to a two-part rate with a greater differential between summer and winter rates.
  - The breakpoint between blocks would be at 1,000 kWh
  - The flat (single) winter rate would stay at current level.

## RMP Cost-of-Service: Rate Spread and Rate Design

### RMP's Rationale for Rate Design

- Lessens risk of fixed cost recovery through the energy rate.
  - Customer charge increase + CLC results in fivefold (\$2 to \$10) increase in fixed charges for high use customers.
- CLC provides clearer, more persistent price signals to customers with relatively high summer use.
- Dan Jones 2007 telephone survey indicates existing three-tiered, summer energy rate structure is not understood by customers and does not materially impact usage decisions.



## RMP Cost-of-Service: Rate Spread and Rate Design

# CCS Staff's Concerns

- Intra-class fairness for residential customers
  - Low use residential customers would incur much greater percentage increases in bills than high use residential customers.
- Does not appear to promote conservation
  - An inclining block energy rate structure, rather than a fixed demand charge (CLC), is typically used to send price signals to customers that peak period usage is more expensive to serve.
  - Additional education may be warranted, rather than abandoning good rate design
- Retroactive application of the CLC to past summer usage is problematic.
- Insufficient cost-based supporting evidence for either CLC or tailblock rate.



RMP Cost-of-Service: Rate Spread and Rate Design

## CCS Staff's Rate Design Issues

- Examine appropriate level of customer charge
- Retain the existing inverted block summer energy rate structure and use marginal cost analysis to place more cost responsibility on the last two blocks
- Examine better mechanisms for customer education on rate design



## RMP Cost-of-Service: Rate Spread and Rate Design

# Committee Discussion and Next Steps

- Discussion
- Next Steps
  - Draft Testimony from consultant Paul Chernick (Resource Insight) is due early next week.
  - COS Policy and Rate Design Testimony is being drafted by Dan Gimble.
  - Direct Testimony is due July 21, 2008, with hearings in early October 2008.



# Rocky Mountain Power's Request for Waiver from RFP And Approval of Acquisition of New Generating Plant

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Michele Beck



## Resource Acquisition

# Background

- RMP requested waiver of RFP for the acquisition of a new generating plant
  - Time limited commercial opportunity
  - No parties opposed waiver of RFP
  - Commission issued order granting waiver
- RMP did not request waiver of approval process
  - Committee raised legal argument
  - Other parties have policy concerns re: process
  - Commission did not rule on our argument, so process is moving forward



## Resource Acquisition

### Issues relating to approval

- Analysis for approval will review:
  - Prudence of acquiring this specific resource
  - Dollar amount and timing for inclusion of associated costs in rates
- Committee staff, with consultant input, in process of evaluating issues
- Primary concern: tight timeline and difficulty obtaining sufficient information for review

Note: Details re: plant and supporting evidence are confidential and subject to terms of a protective order.



# Telecom Capital Structure

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Eric Orton



## Telecom Capital Structure

### Proposed Rule

- Utah Rural Telecom (URTA) filed a proposed rule with the Commission
- Their proposal was to have all companies rate of return based on a hypothetical Capital Structure of 60% Equity and 40% Debt



## Telecom Capital Structure

# Background

- In past, treatment of capital structure has been inconsistent – sometimes using actual and sometimes using a hypothetical
- Debt to equity ratios for small telecoms vary dramatically based mainly on those companies who purchased Qwest exchanges, and/or have growing areas.
- URTA was seeking “equitable consistency” in their proposed rule
- DPU has led a series of meetings with interested parties



## Telecom Capital Structure

# Current Revised Proposal

- Use actual debt-equity ratio, when equity percentage is between 35 and 65
- Use 35% equity as a proxy, when equity is equal to or less than 35%
  - Provides extra capital and incentive for low-equity companies to invest in themselves
- Use 65% equity as a proxy, when equity is equal to or greater than 65%
  - Provides incentives for debt-equity ratios that result in lower rates
- Remaining issues under discussion:
  - Review and/or expiration period for using proxy on low-equity companies



## Telecom Capital Structure

### Recommended Committee Position

- At first, staff concerned about motives behind proposed rulemaking
  - Participation in process has been good to aid our understanding and to start to build bridges with telecom participants
- Staff supports the agreement as it is emerging
- Staff supports DPU in pursuing the conditions on use of proxy for low-equity companies



# WECC Overview

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Nancy Kelly



Western Electricity Coordinating Council: A Rapidly Evolving Organization

## Presentation Overview

- WECC: The Western Transmission Organization
- WECC Background, Governance, and Organizational Structure
- Drivers of Change
- Major Initiatives, Issues, and Implications for Utah Customers



Western Electricity Coordinating Council: A Rapidly Evolving Organization

## **The Western Transmission Organization**

- **Current Functions**
  - Reliability;
  - Interface between Reliability and Commercial Aspects of Operations;
  - Standards Development, Compliance and Enforcement;
  - Data, Analysis, Resource Assessment;
  - West-wide Transmission Expansion Planning;
  - Home for the Western Regional Energy Generation Information System (WREGIS).



## Western Electricity Coordinating Council: A Rapidly Evolving Organization

### Background

- Voluntary Membership Organization
- Formed in April 2002
  - Merger of WSCC and two of the three Regional Transmission Associations (RTAs)
- Geographic Scope
  - 1.8 million square miles
  - Canada to Mexico
  - All or part of 14 States in between



Western Electricity Coordinating Council: A Rapidly Evolving Organization

## Background

- Mission:
  - Maintain a reliable electric power system that supports efficient competitive power markets;
  - Assure open and non-discriminatory transmission access among members and provide a forum for resolving transmission access disputes between members.

Western Electricity Coordinating Council: A Rapidly Evolving Organization

## Governance

- Six Member Classes with Full Voting Rights
  - Class 1: Large transmission owning utilities
  - Class 2: Small transmission owning utilities
  - Class 3: Marketers
  - Class 4: End users and environmental groups
  - Class 5: Regulatory representatives
  - Class 6: Canadian representatives
- Class Seven: Members at Large (do not elect representatives to the Board)



Western Electricity Coordinating Council: A Rapidly Evolving Organization

## Governance

- Thirty-two Member Board of Directors
  - Four representatives from each voting member class (Classes 1 through 6)
  - One representative from Mexico
  - Seven non-affiliated directors



Western Electricity Coordinating Council: A Rapidly Evolving Organization

## Organizational Structure

- Five Board Committees
  - Reliability Policy Issues Committee
  - Governance and Nominating Committee
  - Finance and Audit Committee
  - Human Resources and Compensation Committee
  - Transmission Expansion Planning Policy Committee



Western Electricity Coordinating Council: A Rapidly Evolving Organization

## Organizational Structure

- Four Functional Areas Reporting Directly to the Board of Directors
  - Reliability Coordination Committee
  - Operating Transfer Capability Policy Committee
  - Western Renewable Energy Generation Information System
  - Compliance Hearing Body



Western Electricity Coordinating Council: A Rapidly Evolving Organization

## Organizational Structure

- Three Standing Committees:
  - Operating Committee;
  - Planning and Coordination;
  - Market Interface.
- Each Standing Committee has numerous Subcommittees, Taskforces and Working Groups.
- The work of the Standing Committees is approved by the Board of Directors.

Western Electricity Coordinating Council: A Rapidly Evolving Organization

## Drivers of Change

- Industry Restructuring
  - Open Access
  - Increased the tension between reliability and commercial concerns
  - Created a new group of players with a different culture and different incentives
  - Altered utility planning
  - The three RTOs initially anticipated in the West did not form



Western Electricity Coordinating Council: A Rapidly Evolving Organization

## Drivers of Change

- Energy Policy Act of 2005
  - Mandatory Standards Setting, Compliance and Enforcement
  - DOE Transmission Congestion Studies and National Interest Electric Transmission Corridor designation
- Environmental Policy
  - State Renewable Portfolio Standards
  - Carbon Emissions Limitations



Western Electricity Coordinating Council: A Rapidly Evolving Organization

## **Major Initiatives, Issues and Implications**

### **WECC Five-Year Strategic Initiative**

- Objectives
  - Maintain the reliability and protection of the bulk electric power system
  - Monitor and enforce compliance
  - Be the credible source of interconnection-wide information
  - Become the interconnection wide planning facilitator
  - Become an interconnection-wide policy facilitator



Western Electricity Coordinating Council: A Rapidly Evolving Organization

## **Major Initiatives, Issues and Implications**

### **Real-time Reliability**

- Reliability Coordination Strategic Initiative
  - Consolidate control centers
  - Improve tools
- West Wide System Model
  - Bus level detail of western interconnection for use in real time situational awareness and system studies by Reliability coordinators and member utilities
- Western Interchange Tool
  - Automates commercial functions
  - Tracks reserves



Western Electricity Coordinating Council: A Rapidly Evolving Organization

## **Major Initiatives, Issues, and Implications**

### **Real-time Reliability**

- Implications for Utah Customers
  - Common tools and improved situational awareness reduces the potential for cascading outages.
  - Customers benefit.



Western Electricity Coordinating Council: A Rapidly Evolving Organization

## **Major Initiatives, Issues, and Implications**

### **Improve/Expand Data, Analysis, Tools**

- Data Collection
- Resource Assessment
- RPS Implementation
- Transmission Expansion Planning
  - Facilitate west-wide planning
  - Support DOE congestion studies
  - Support members in complying with Order 890 planning requirements



Western Electricity Coordinating Council: A Rapidly Evolving Organization

## **Major Initiatives, Issues, and Implications**

### **Improve/Expand Data, Analysis, Tools**

- Implications for Utah Customers
  - Solid data and sound analysis provide, utilities, customer advocates and policy makers an essential component for good decision making.
  - Customers benefit.



Western Electricity Coordinating Council: A Rapidly Evolving Organization

## **Major Initiatives, Issues, and Implications**

### **Operating Reserves**

- Contingency Reserves (amount of reserve)
  - NERC requirement: most severe single contingency;
  - WECC requirements more stringent;
  - New players interpreted WECC requirements differently from vertically integrated utilities;
  - Whether adequate reserve was actually being carried became a concern;
  - New Regional Criteria approved by Board in April;
  - Awaiting approval by FERC.

Western Electricity Coordinating Council: A Rapidly Evolving Organization

## **Major Initiatives, Issues and Implications**

### **Operating Reserves**

- Frequency Responsive Reserve (quality of reserve)
  - The frequency at which the system frequency stops declining following a disturbance has been eroding over time
  - Generation controls on combined-cycle units and generation loading are contributors
  - In the west, hydro facilities respond more quickly to a frequency decline but are not compensated leading to perceived inequities



Western Electricity Coordinating Council: A Rapidly Evolving Organization

## **Major Initiatives, Issues, and Implications**

### **Operating Reserves**

- Frequency Responsive Reserve (continued)
  - In addition, some market participants believe WECC standards require holding too much reserve at too high of a cost.
  - To address reliability, equity, and cost concerns, WECC is exploring a Frequency Responsive Reserve Requirement (FRR).
  - Each balancing authority would have to contribute to arrest the frequency dip following a disturbance in an allotted time.



Western Electricity Coordinating Council: A Rapidly Evolving Organization

## Major Initiatives, Issues, and Implications

### Operating Reserves

- Frequency Responsive Reserve (continued)
  - An FRR would shift costs between geographic regions.
  - WECC is currently conducting a pilot.
  - A drafting team is being formed to develop an FRR standard to be posted for review in September.
  - If the process remained on schedule it could be before the Board in April 09.
  - I expect numerous delays.



Western Electricity Coordinating Council: A Rapidly Evolving Organization

## **Major Initiatives, Issues, and Implications**

### **Operating Reserves**

- Implications for Utah Customers
  - The tension between reliability and commercial concerns is likely to intensify as energy costs climb.
  - Customer representatives must remain diligent to assure that changes to reliability standards achieve improved reliability and/or equity, and do not simply shift costs from producers to consumers or from one groups of consumers to another.



Western Electricity Coordinating Council: A Rapidly Evolving Organization

## Major Initiatives, Issues, and Implications

### Budget

- WECC Budget is exploding as organization grows
  - Budget roughly \$12 million in 2003
  - Budget projected to approach \$50 million by 2013
- Primary drivers
  - Reliability Centers
  - EPACT 2005
    - Compliance and Enforcement
    - NERC dues



Western Electricity Coordinating Council: A Rapidly Evolving Organization

## **Major Initiatives, Issues, and Implications**

### **Budget**

- Implication for Utah customers
  - The rapid growth of WECC as an organization is more of a concern from an administrative perspective than from a cost perspective
  - Rate impact to Utah customers is small; costs are spread across total western load
  - Benefits exceed costs



Western Electricity Coordinating Council: A Rapidly Evolving Organization

## Conclusion

- Sweat equity is the WECC currency.
- Participation in WECC forums can produce positive outcomes for customers that exceed the time and resources expended.



# Rocky Mountain Power's Request for Transmission Certificate of Convenience and Necessity

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Michele Beck



Trans CCN

## Introduction

- RMP filed a request for a Certificate of Convenience and Necessity for a new transmission line from a substation by the airport up through northern Utah into southern Idaho
- The CCN process at the Commission solely considers the need for the facility
- Moderate to significant opposition exists from local citizens and governmental units in Box Elder County regarding the siting of this line
- Commission made very clear in its scheduling order that it has no authority regarding siting



Trans CCN

## Analytical Issues

- The Committee will focus its efforts solely on the need for the line, consistent with the authority of the Commission in this proceeding
  - Rules and statutes outlining what constitutes need are very thin
- The Committee will also assist individual consumers in understanding and navigating the Commission process, consistent with our other statutory duty



# Case Updates

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Michele Beck



## Case Updates

### Questar Pass-Through

- Questar filed new pass-through case June 5
  - Proposes 40% total increase in two steps
  - Questar also pursuing significant consumer education
- Market forces driving prices
  - National market up
  - Regional market advantage disappearing
- Staff will review filing
  - Continue working on gas cost management with Company (i.e. Wexpro, hedging policies)
  - Continue work on helping consumers manage their costs (i.e. conservation)



## Case Updates

### Telecom Rate Cases

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- Cedar Valley rate case – underway
- Three new cases filed
  - Manti telecom
  - Carbon/Emery Telcom
  - Couth Central Telecom
- Proposed new Committee approach
  - Review DPU analysis and audit
  - Choose certain public interest issues to monitor
  - Submit policy statements



## Case Updates

# Rocky Mountain Power IRP

- IRP Update recently submitted
- Ongoing stakeholder meetings have addressed individual issues and updated Company approach
  - Business plan/IRP consistency
  - Forecasting
  - Treatment of CO<sub>2</sub> costs



## Case Updates

### QGC Integrated Resource Plan (IRP) & Guidelines

- Questar IRP Guidelines
  - Commission held technical conference for input then issued Order with draft new guidelines
  - Many concepts advanced by the Committee last year were incorporated in draft order
  - Staff provided additional input and comment to draft order
- Questar filed this year's IRP under existing guidelines and staff has begun analysis



## Case Update

# Western Climate Initiative (WCI)

- Staff participated in recent WCI and Utah updates
- Policies are in development defining goals and parameters of cap and trade program that will significantly impact Utah consumers
  - Target: Fall 2008
- Staff's primary concern is that the policy development is occurring before the economic modeling is complete
  - No measure of economic impact
- Staff will continue to monitor and seek Utah forums to give input



## Case Update

# Committee Policies & Procedures

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- Process has been delayed by workload and staffing issues
- Committee members to date have provided little input on topics, no input regarding details
- Committee preference?
  - Interactive process with significant input from Committee
  - Staff provide draft policies for Committee edits and approval



# Other Business/Adjourn

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